

July 30, 2019

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Gentlemen,

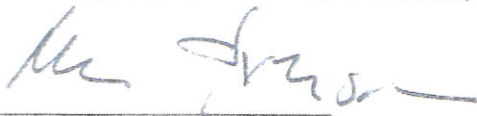
First, let me say thank you for the opportunity to engage with you as you launch a fresh initiative with local power companies (LPCs) and direct-serve customers on TVA's long-range direction, including the preparation of a new long-range financial plan. Additionally I appreciate the opportunity to provide first impressions and commentary on the proposed term sheet (dated 7/25/19) you provided.

Our discussions yesterday focused on three broad areas: flexibility, customer engagement / partnership in planning, and pricing. Those three broad areas were points of exchange for long-term contractual commitments. I understand that you have a compressed window by which you are attempting to solicit comments to consider before making a presentation to the TVA Board and TVA customers at the August 6th "All Customer Meeting". To that end, the following comments are rough first impressions. Inasmuch, they haven't been fully vetted internally, and I reserve my comments to be adjusted or modified if new or more detailed information becomes available.

1. My first impressions on the flexibility commitment is good. A LPCs unencumbered opportunity to respond to end-customer initiated or market-driven alternative energy solutions is a good thing as our "traditional" electric marketplace is in flux. I might suggest you explain a bit deeper what TVA has in mind with respect to "...mutually agreeable pricing and planning considerations..."
2. What does the date (October 1, 2021) within the context of flexibility mean? Is this a target date for working out pricing and planning concepts, or is this a date by which distribution solution projects need to be presented, engineered and installed (i.e., a short window of project consideration)?
3. Also with respect to flexibility, the proposed term sheet states that if the flexibility commitment isn't fulfilled by October 1, 2021, then Distributor (LPC) may terminate the agreement and return half of the Program Credits. Is the loss of 50% of credits received the appropriate balance of risk and responsibility to get the flexibility commitment worked out?
4. In yesterday's meeting, TVA spoke to having customers who have committed to long-term wholesale power contracts (WPC) be engaged in a meaningful way in strategic decisions on debt, price and projects "much like traditional G&T coops". I would agree. The proposed term sheet was silent with respect to that notion, and if presented publically TVA may want to think thru the balance between long-term customer's voices, vs. TVA Board authority, vs. other customer input. I'll have more about customer stratification later.

5. I like the notion presented under "Events of Default" and the companion "Remedies" for pricing equity (my wording) in the case of the sale of TVA assets to a non-public entity. In a roundabout way, this remedy seems to address a long discussed matter of equity in TVA assets should a sale occur. There may need to be a better understanding of the mechanics of how that would work in the unlikely situation of a TVA sale, but I like the concept.
6. In the "Remedies" section, there is mention of pricing equity "...as required by TVA under any new law that would be higher than those otherwise charged by TVA in accordance with the current TVA Act." This too is a good provision. I'm assuming the reference to "new law" speaks to legislative proposals forcing TVA to adopt market-based pricing, as opposed to cost-based pricing. This "new law" reference in "Remedies" is without a mention in the "Defaults" section.
7. In the "Distributor Defaults" subsection of "Events of Default", there is mention of Distributor "facilitates" non-TVA power being sold or supplied. Could a LPCs response (i.e., integration study, etc.) to an end-customer's desire to install a vendor supplied, behind-the-meter solution trigger facilitation? These type of projects will involve LPC personnel in one way or the other. When do we cross the line into "facilitates"?
8. As I mentioned yesterday, the current 5-year rolling WPC is valuable to BGMU as the only form of leverage to keep the TVA / LPC relationship in check. As I mentioned yesterday, I totally understand TVA's desire to have customers commit to a longer term. Despite what's being considered (pricing equity, Program Credits, flexibility, etc.), I'd have to think long and hard about a 20-year rolling WPC. I can wrap my head around a 20-year fixed term today; I'm a little reluctant to commit my successor to a 20-year commitment whenever they come into my position. It seems that TVA is looking to solve today's need for a longer term, not a perpetual commitment of such a length. A better solution in my mind would be a 20-year term with a 10-year notification starting in Year 11 of the WPC.
9. As an alternative arrangement, I would be willing to consider changing my current 5-year rolling WPC for a 20-year term and 10-year notification in Year 11, with no (\$0.00) Program Credit consideration in the initial 20-year term, provided that at the end of the 20-year term, BGMU would have full, unencumbered FERC Order 888 access to TVA's transmission system.
10. The proposed term sheet's 20-year commitment is probably a bridge too far for direct-serve industrial customers. However, I can envision they would desire to have some form of the Program Credits in exchange for something more palatable in contract length. I would be very opposed to a special carve-out for direct served customers that wasn't available to LPCs.
11. I'm a bit concerned that at the end of the day, there will be stratification of TVA's customers. Those who retained their existing WPC and those who elected for the longer-term WPC. The carrots offered for longer term commitments (Program Credits, meaningful "G&T coop-like" engagement, pricing equity, etc.) may create long-term factions in the customer ranks that may be hard to manage over time. I'm especially concerned how all of this will impact how TVPPA operates and engages with its members.

Again, I'd like to express my gratitude for having an opportunity to engage with you. I think the goodwill you've invested in this process will pay off for all of us. Please feel free to reach out and discuss if you have any questions or comments with respect to the first impressions I've enumerated above.



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